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SUBJECT: U.S. RATIFICATION OF CAFTA PLEASES HONDURAS

1. A jubilant President Ricardo Maduro addressed the nation live the evening of Wednesday, July 27, immediately following the U.S. House of Representatives ratification of the Central America Free Trade Agreement (CAFTA). Maduro, flanked by Minister of Trade and Commerce Irving Guerrero, emphasized the numerous advantages CAFTA offers Honduras, including increased trade, economic growth, investment, and job creation. Maduro announced that he expected entry into force in just 90 days (though that must be approved by all four ratifying parties first). The Ministry of Trade and Commerce has also launched a series of nine outreach events over the next month to explain CAFTA to industrialists, small businesses, farmers, journalists, and politicians.

2. Press coverage (reported septels) in the first few days after the U.S. ratification has been largely positive, echoing Maduro's optimistic assessment of the likely impacts of CAFTA. Business associations and leading business figures quickly acclaimed the ratification and heralded the agreement as an exceptional opportunity to expand the economy and create jobs. However, sectors that feel vulnerable to the increased competition CAFTA will bring have also been vocal over recent days. Carlos H. Reyes, President of the Popular Block and perennial leftist gadfly, rejects CAFTA, saying it will only lead to job losses and that neither it nor the \$2.8 billion in recent debt forgiveness will help Honduras develop. A spokesperson for the campesino NGO COCOCH called CAFTA a "terrible treaty" that would only benefit the light industrial sector while destroying the small farmer. (Note: COCOCH also rejected MCC's plan for agricultural diversification to assist small farmers to adapt to new market opportunities, deriding the proposed \$30 million in technical assistance to farmers as "wasted on consultants" and demanding instead that the money simply be given to the farmers directly as subsidized credit.) Mass protests by teachers and telecommunications workers over the weekend, while not directly related to CAFTA, further highlighted widespread concerns that increased competition and fiscal discipline will lead to mass layoffs and slower pay raises.

3. The timing of CAFTA ratification, following closely on the heels of significant G-8 debt forgiveness and the signing of a \$215 million Millennium Challenge Corporation (MCC) grant, has significantly raised expectations, but also trepidation that the funds could be stolen or squandered. A drumbeat of warning has reverberated through the op-ed pages for the last couple of weeks that if Honduras is to benefit from these historic agreements it must rein in corruption and avoid election-year pork-barrel politics.

4. Both CDA and EconChief were interviewed extensively in the days following ratification, and both emphasized the economic growth that CAFTA could provide as a sustainable strategy for poverty alleviation. However, both cited judicial insecurity and corruption as issues that must be confronted meaningfully if foreign direct investment is to flow into Honduras. Uncertain land tenure, poor transparency and technical proficiency in the civil court system, and threats to the physical safety of foreigners and Hondurans alike each discourage long-term investment and, unless remedied, will inhibit the economic growth Honduras needs. Post continues to work with the GOH on these issues, promoting reform of the civil code and civil court procedures, and encouraging a much tougher GOH stance on both violent crime and corruption.

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